

centrica

Centrica plc Interim Results

for the period ended 30 June 2016



Disclaimer

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This presentation contains certain forward-looking statements with respect to the financial condition, results, operations and businesses of Centrica plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts.

Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser.

This announcement contains inside information which is disclosed in accordance with the Market Abuse Regulation which came into effect on 3 July 2016.



Iain Conn

Group Chief Executive

Headlines

- Encouraging H1 financial delivery despite weak environment
- Efficiency programme ahead of target
- Good progress in implementing the strategy
- Full year cash flow and financial targets underpinned
- Balance sheet strengthened

Strategic context

- Some recovery in commodity prices
- UK regulatory and political context evolving
 - CMA final report published
 - UK Capacity Market changes constructive
 - Brexit vote creates uncertainty but limited immediate impact
- Competition in energy supply intense, but Centrica responding well
 - Focus on customer service, offer innovation and cost efficiency
- Shift to distributed energy requires new capabilities
 - Acquisitions of Panoramic Power, ENER-G Cogen and Neas Energy
 - New products and offers in Connected Home

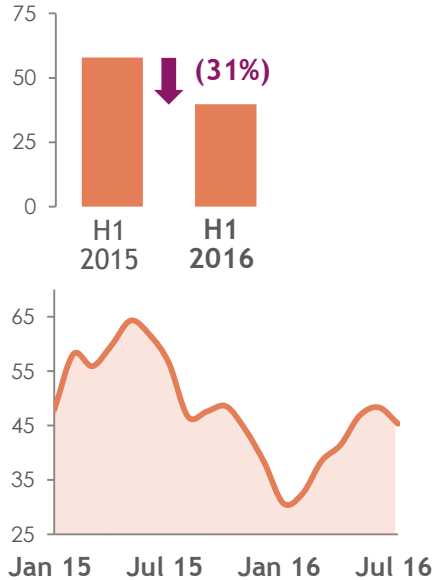


Jeff Bell

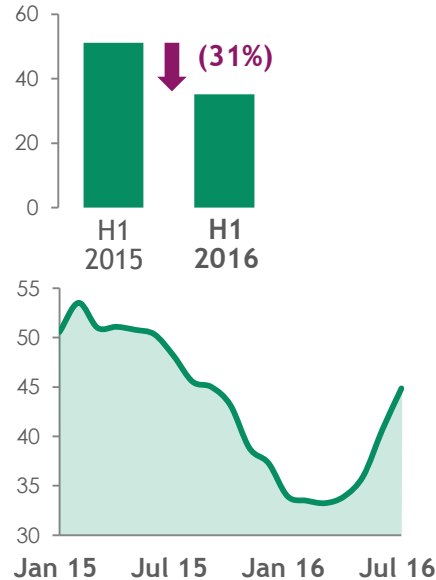
Group Chief Financial Officer

Commodity prices

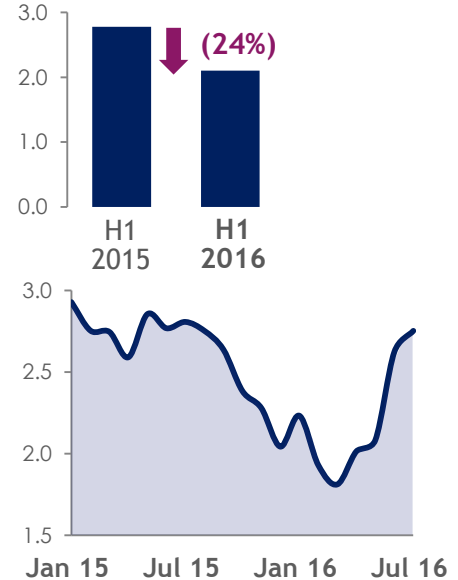
Average Brent Oil prices
(\$/boe)



Average UK NBP gas prices
(p/th)



Average Henry Hub gas prices
(\$/mmbtu)



Brent Oil and Henry Hub prices are historic month ahead prices averaged over the half year and historic month ahead prices to 27 July 2016. UK NBP prices are historic winter 2016/17 prices averaged over the half year and historic winter 2016/17 prices to 27 July 2016.

Financial headlines

Period ended 30 June	H1 2015	H1 2016	Δ
Revenue (£m)	15,451	13,380	(13%)
Adjusted operating profit (£m)	970	853	(12%)
Adjusted effective tax rate	29%	28%	(1ppt)
Adjusted earnings (£m)	587	507	(14%)
Adjusted basic earnings per share (p)	11.8	9.8	(17%)
Interim dividend per share (p)	3.57	3.60	1%
Adjusted operating cash flow (£m)	1,149	1,372	19%
Underlying adjusted operating cash flow growth	-	11%	nm
Group net investment (£m)	383	444	16%
Net debt (£m)	4,905	3,783	(23%)
Exceptional items after taxation (£m)	116	(63)	nm

The above adjusted figures are before exceptional items and certain re-measurements. The 2015 figures have been restated to include depreciation of fair value uplifts to property, plant and equipment from our investments in Venture and Nuclear. Adjusted operating profit also includes share of JVs and associates before interest and taxation. Underlying adjusted operating cash flow growth is calculated after adjusting 2015 for the impact of commodity price movements on E&P and Nuclear and excluding the impact of one-off working capital recovery in UK Business in 2016.

Reconciliations of adjusted operating profit, adjusted effective tax rate and adjusted operating cash flow are provided in the Group Financial Review in the Interim Results announcement.

Energy Supply & Services – UK & Ireland

ADJUSTED OPERATING PROFIT

Period ended 30 June (£m)	H1 2015	H1 2016	Δ
UK Home	678	635	(6%)
UK Business	6	31	417%
Ireland	23	24	4%
Energy Supply & Services – UK & Ireland	707	690	(2%)

ADJUSTED OPERATING CASH FLOW

Energy Supply & Services – UK & Ireland	178	822	362%
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Average UK temperature (degrees Celsius)

H1 2015	SNT 9.1
H1 2016	

Total customer energy consumption

Gas (mmth)

H1 2015	2,719
H1 2016	2,612

Electricity (TWh)

H1 2015	20.7
H1 2016	19.6

Annualised cost per Home customer (£)

H1 2015	97
H1 2016	99

The above figures are stated before exceptional items and certain re-measurements and include share of JVs and associates before interest and taxation. From 2016 new segments are in place. 2015 comparatives have been restated accordingly.

Energy Supply & Services – North America

ADJUSTED OPERATING PROFIT

Period ended 30 June (£m)	H1 2015	H1 2016	Δ
North America Home	50	33	(34%)
North America Business	139	62	(55%)
Energy Supply & Services – North America	189	95	(50%)

ADJUSTED OPERATING CASH FLOW

Energy Supply & Services – North America	370	199	(46%)
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Average USNE temperature (degrees Celsius)

H1 2015	SNT 8.4
H1 2016	

Total customer energy consumption

Gas (mmth)		Electricity (TWh)	
H1 2015	4,574	H1 2015	55.0
H1 2016	4,211	H1 2016	51.6

Annualised cost per Home customer (£)

H1 2015	186
H1 2016	195

The above figures are stated before exceptional items and certain re-measurements and include share of JVs and associates before interest and taxation. From 2016 new segments are in place. 2015 comparatives have been restated accordingly.

Connected Home, DE&P and EM&T

ADJUSTED OPERATING PROFIT

Period ended 30 June (£m)	H1 2015	H1 2016	Δ
Connected Home	(28)	(23)	18%
Distributed Energy & Power (DE&P)	(20)	(11)	45%
Energy Marketing & Trading (EM&T)	(55)	(14)	75%
Total Connected Home, DE&P, EM&T	(103)	(48)	53%

ADJUSTED OPERATING CASH FLOW

Connected Home	(31)	(25)	19%
Distributed Energy & Power	(22)	(19)	14%
Energy Marketing & Trading	143	103	(28%)
Total Connected Home, DE&P, EM&T	90	59	(34%)

Connected Home revenue (£m)

H1 2015	8
H1 2016	12

DE&P revenue (£m)

H1 2015	44
H1 2016	67

The above figures are stated before exceptional items and certain re-measurements and include share of JVs and associates before interest and taxation. Connected Home, Distributed Energy & Power and Energy Marketing & Trading are new segments. 2015 comparatives have been restated accordingly.

Exploration & Production

Period ended 30 June (£m)	H1 2015	H1 2016	Δ
Adjusted operating profit	106	88	(17%)
Adjusted operating cash flow	450	336	(25%)
Free cash flow	35	72	106%

Total production volumes

(mmbobe)

H1 2015	40.7
H1 2016	37.8

Unit lifting and other cash production costs

Europe (£/boe)

H1 2015	15.6
H1 2016	12.2

Americas (£/boe)

H1 2015	8.2
4.3	H1 2016

Total (£/boe)

H1 2015	12.9
H1 2016	9.6

The above figures are stated before exceptional items and certain re-measurements and include share of JVs and associates before interest and taxation.

The 2015 comparatives have been restated to include depreciation of fair value uplifts to property, plant and equipment from our investments in Venture and Nuclear, and to reflect the new segmentation.

Central Power Generation

Period ended 30 June (£m)	H1 2015	H1 2016	Δ
Adjusted operating profit	58	24	(59%)
Adjusted operating cash flow	26	(30)	nm

Gas-fired generation (TWh)



Nuclear generation (TWh)



Wind generation (TWh)



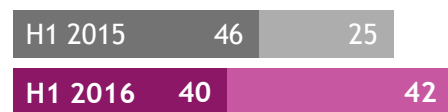
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Centrica Storage

Period ended 30 June (£m)	H1 2015	H1 2016	Δ
Adjusted operating profit	13	4	(69%)
Adjusted operating cash flow	60	30	(50%)

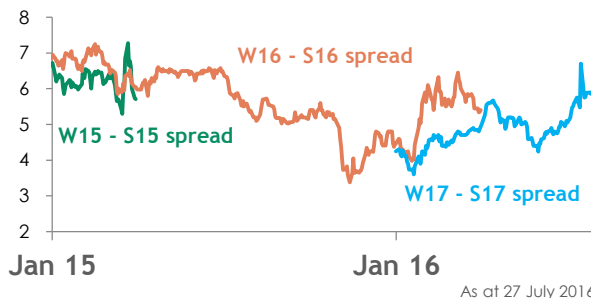
Storage revenue (£m)



Additional space / cushion gas / other

 SBU

Forward seasonal gas spreads (p/th)



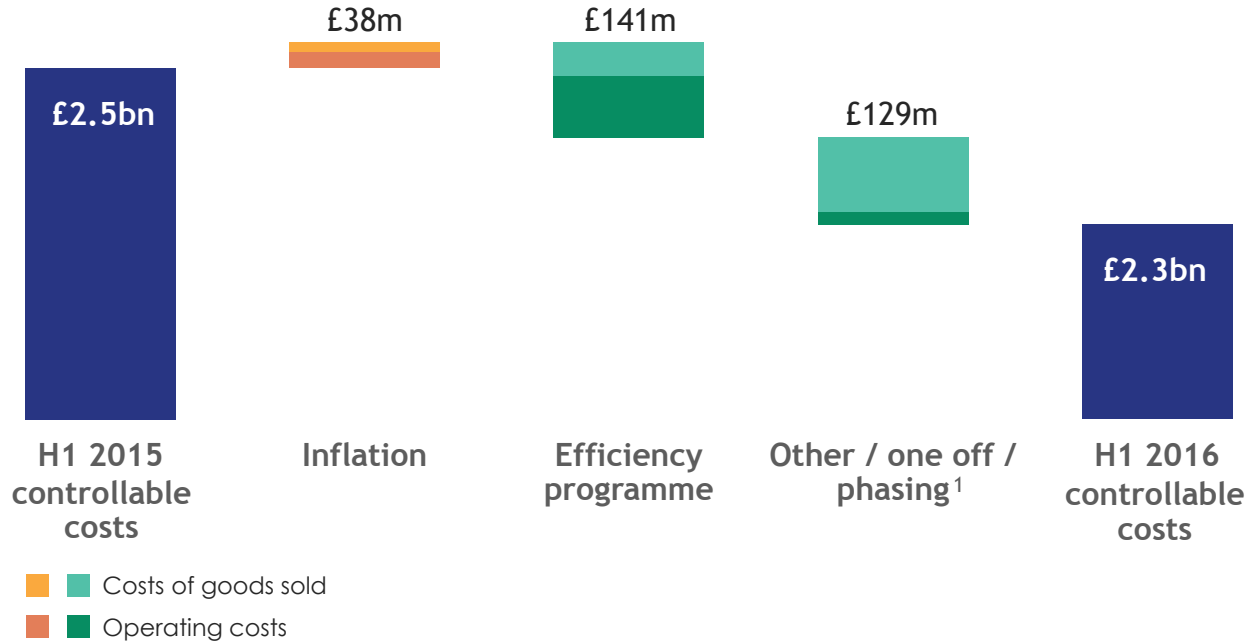
The above figures are stated before exceptional items and certain re-measurements and include share of JVs and associates before interest and taxation.

Operating costs

Period ended 30 June (£m)	H1 2015	H1 2016	Δ
Reported operating costs	1,525	1,514	(1%)
Adjustments	(211)	(263)	nm
Adjusted operating costs	1,314	1,251	(5%)
Growth investment	-	(22)	nm
Like-for-like adjusted operating costs	1,314	1,229	(6%)

Adjusted operating costs exclude depreciation, smart metering expenses, dry hole costs, profit on fixed asset disposals, business performance impairments, AlertMe acquisition costs, FX movements and growth investment.

H1 efficiency programme delivery



¹. Includes costs that are either non-repeating in nature or a result of phasing between periods.

Net investment

Period ended 30 June (£m)	H1 2015	H1 2016	Δ
Energy Supply & Services – UK & Ireland	40	48	
Energy Supply & Services – North America	25	24	
Connected Home, DE&P, EM&T ¹	47	15	
Exploration & Production	416	289	
Central Power Generation (CPG), Gas Storage, Other	34	48	
Capital expenditure (including small acquisitions)	562	424	(25%)
Material acquisitions ²	-	132	
Net disposals ³	(179)	(112)	
Group net investment	383	444	16%

1. H1 2015 includes AlertMe acquisition in Connected Home.

2. Material acquisitions in H1 2016 relates to net cash payment for ENER-G Cogen. The acquisition of Neas Energy is expected to complete in H2 2016.

3. Net disposals are sale of businesses, property plant and equipment and intangible assets, net of investments in joint ventures and associates. H1 2016 includes the disposals of our 50% interest in the GLID windfarm and our interest in the Skene and Buckland E&P assets. H1 2015 includes the disposal of Lincs wind farm debt.

Cash flow

Period ended 30 June (£m)	H1 2015	H1 2016
EBITDA	1,444	1,272
Tax	(144)	(141)
Dividends received	65	49
Working capital & other ¹	(216)	192
Adjusted operating cash flow	1,149	1,372
Net investment	(383)	(444)
Interest	(119)	(55)
Dividends	(238)	(365)
Equity placing	-	700
Other ²	(27)	(186)
Adjusted net cash inflow / (outflow)	382	1,022

Current credit ratings



Baa1
(Stable Outlook)



BBB+
(Negative Outlook)

1. Other includes re-measurement of energy contracts, profit on disposal of business, employee share scheme costs, movement on provisions and defined benefit pension service cost and normal contributions.

2. Other includes net payments for own shares, payments relating to exceptional charges and costs associated with the equity placing.

Summary & outlook

- Earnings down 14%
- Adjusted operating cash flow up 19%
- Underlying adjusted operating cash flow up 11%
- Net debt down to £3.8bn
- Strong investment grade credit ratings
- Good progress on efficiency programme

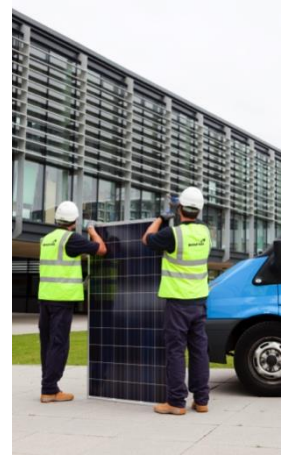


Iain Conn

Group Chief Executive

Strategic update

- Centrica's strategy
- Portfolio repositioning and customer-led growth
- Cost efficiency programme
- Financial framework
- 2016 targets and outlook



Centrica's strategy

- Energy and services company
- Purpose:
“to provide energy and services to satisfy the changing needs of our customers”
- Long term shareholder value through returns and growth
- 3-5% per annum operating cash flow growth
- £750m per annum cost efficiency programme
- Growth focus on customer-facing businesses and reduce scale in E&P and central power generation
 - £1.5bn resource reallocation to 2020
- Progressive dividend policy and strong investment grade credit rating

Challenges and opportunities

- Challenging environment
 - Low commodity prices
 - Weak economic growth
 - Political uncertainty
- Fundamental trends – market participants must change
- Centrica has a strong starting position
 - Customer base and key customer-facing capabilities
- Competition likely to be intense
 - Quality, efficiency and pace of execution are key
- Opportunities outweigh challenges

Reduce scale in E&P and CPG

- Reduced investment into E&P
- E&P free cash flow positive in H1
 - Capex ~£500m for the full year
 - Cash production costs down ~£200m for the full year vs 2014
- Commenced process to exit Canada E&P
- Killingholme CCGT closed; will assess Capacity Market options
- GLID wind farm JV sold; Lincs disposal expected by end of 2017

E&P capex (£m)

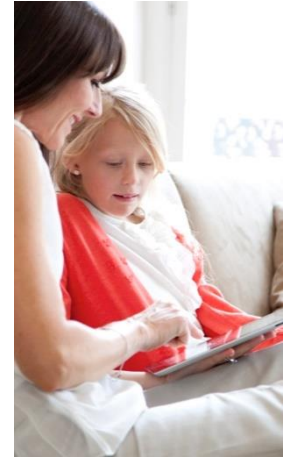
FY 2014	£1,086m
FY 2015	£728m
FY 2016	-£500m

E&P lifting and other cash production costs (£m)

FY 2014	£1,068m
FY 2015	£984m
FY 2016	<£900m

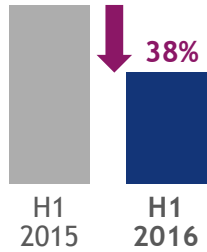
Growth focus on customer-facing businesses

- Underpinning growth in Energy Supply & Services
 - Repositioning organisation and capability
 - Customer service, offer innovation, cost efficiency
- Growing capabilities and customers in DE&P and EM&T
 - Panoramic Power, ENER-G Cogen, Neas Energy
 - Organic customer growth and ENER-G Cogen additions
- New product development and growth in Connected Home
 - Hive hub growth, five new products, international approach



Delivery in Energy Supply & Services

UK Home
Energy supply complaints



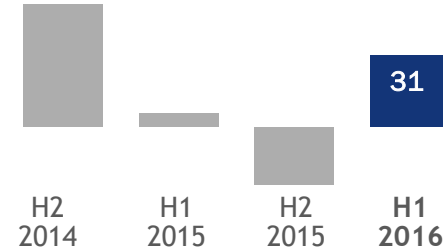
NA Home
Energy supply complaints



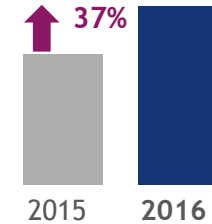
Innovative offers



UK Business
Operating Profit (£m)



NA Business
H2 net margin under contract as at 30 June



Distributed Energy & Power capabilities

Differentiated offering



Energy insights



Asset optimisation



Energy solutions

Underlying products



Demand side response



CHP



PV



Battery



Stand-by
Generators



Energy
Efficiency

Customer growth in DE&P

DE&P active customer sites and capacity under management

Active customer sites



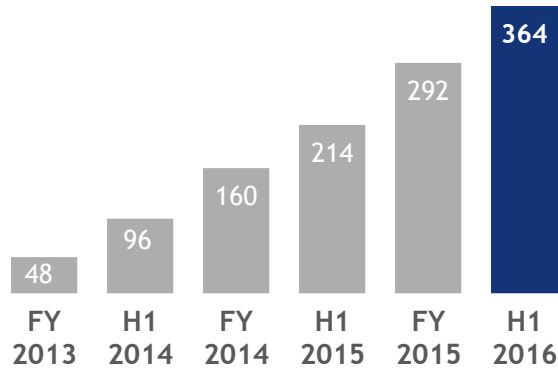
Capacity under management (MW)



- Customer growth
- Capacity under management increased
- Material increase in order book secured revenue

Growth in Connected Home

Connected Home cumulative
UK hubs installed ('000)

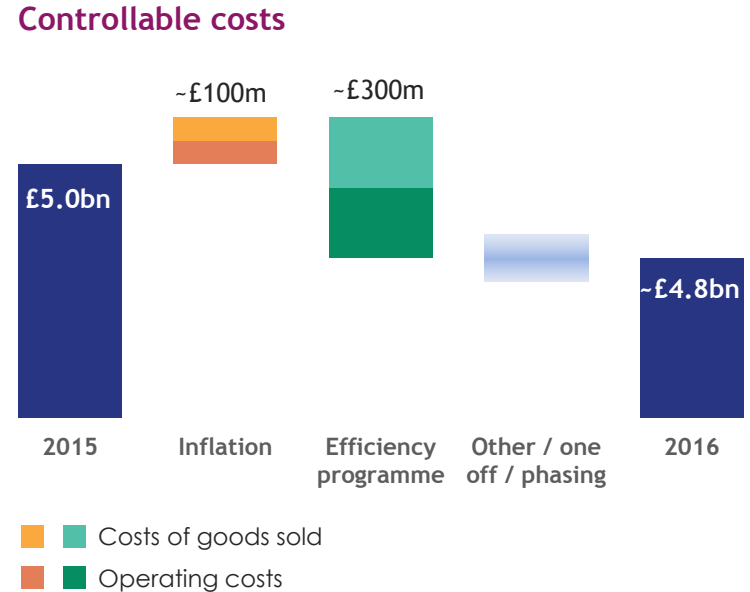


- Five new products launched in H1
- Smart thermostat sales remain strong
- Plans to launch our suite of connected home products in North America around end of the year



Cost efficiency programme

- Efficiency programme ahead of target
- H1 progress
 - Efficiencies of £141m
 - ~1,500 direct headcount reduction
- Full year headcount reduction ~3,000
- Full year efficiencies ~£300m
- £750m per annum of savings by 2020
- Early success de-risks delivery and accelerates value capture



Financial framework

Targets	Metric
Adjusted operating cash flow	<ul style="list-style-type: none">• 3-5% growth p.a.
Dividend	<ul style="list-style-type: none">• Progressive in line with adjusted operating cash flow
Controllable costs	<ul style="list-style-type: none">• Operating cost growth < inflation
Capital re-investment	<ul style="list-style-type: none">• Investment <70% of adjusted operating cash flow• Limited to £1bn p.a. in 2016-17
Credit rating	<ul style="list-style-type: none">• Strong investment grade (Baa1/BBB+ or above)
ROACE	<ul style="list-style-type: none">• 10-12%

2016 targets

- Adjusted operating cash flow >£2bn
- Group capital investment limited to £1bn
 - E&P capex of around £500m
- Around £300m of cost efficiencies in 2016, increased from £200m expectation in February
- Like-for-like operating costs below 2015
- Like-for-like direct headcount reduced by around 3,000

Summary

- Encouraging financial delivery despite weak environment
- Efficiency programme ahead of target
- Good progress in implementing the strategy
- Full year cash flow and financial targets underpinned
- Balance sheet strengthened
- Growth target: 3-5% p.a. growth in underlying adjusted operating cash flow

Q&A



Iain Conn
Group Chief
Executive



Jeff Bell
Group Chief
Financial Officer



Mark Hanafin
Chief Executive,
Energy Production,
Trading and
Distributed Energy



Mark Hodges
Chief Executive,
Energy supply
and services,
UK & Ireland



Badar Khan
Chief Executive,
Energy supply
and services,
North America

Adjusted operating profit – H1

Period ended 30 June (£m)	H1 2015	H1 2016	Δ
Energy Supply & Services – UK & Ireland	707	690	(2%)
Energy Supply & Services – North America	189	95	(50%)
Connected Home	(28)	(23)	18%
Distributed Energy & Power	(20)	(11)	45%
Energy Marketing & Trading	(55)	(14)	75%
Total customer-facing businesses	793	737	(7%)
Exploration & Production	106	88	(17%)
Central Power Generation	58	24	(59%)
Centrica Storage	13	4	(69%)
Adjusted operating profit	970	853	(12%)
Share of JV / associates' interest and taxation	(45)	(37)	18%
Group operating profit	925	816	(12%)

The above figures are stated before exceptional items and certain re-measurements. Adjusted operating profit includes share of JVs and associates before interest and taxation.

The 2015 comparatives have been restated to include depreciation of fair value uplifts to property, plant and equipment from our investments in Venture and Nuclear and reflect the new reporting segmentation.

Adjusted operating profit - FY

Period ended 30 June (£m)	FY 2015
Energy Supply & Services – UK & Ireland	891
Energy Supply & Services – North America	323
Connected Home	(49)
Distributed Energy & Power	(32)
Energy Marketing & Trading	66
Total customer-facing businesses	1,199
Exploration & Production	95
Central Power Generation	128
Centrica Storage	37
Adjusted operating profit	1,459

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Adjusted operating cash flow – H1

Period ended 30 June (£m)	H1 2015	H1 2016	Δ
Energy Supply & Services – UK & Ireland	178	822	362%
Energy Supply & Services – North America	370	199	(46%)
Connected Home	(31)	(25)	19%
Distributed Energy & Power	(22)	(19)	14%
Energy Marketing & Trading	143	103	(28%)
Total customer-facing businesses	638	1,080	69%
Exploration & Production	450	336	(25%)
Central Power Generation	26	(30)	nm
Centrica Storage	60	30	(50%)
Other	(25)	(44)	(76%)
Adjusted operating cash flow	1,149	1,372	19%

The above figures are stated before exceptional items and certain re-measurements. Adjusted operating profit includes share of JVs and associates before interest and taxation.

The 2015 comparatives have been restated to include depreciation of fair value uplifts to property, plant and equipment from our investments in Venture and Nuclear and reflect the new reporting segmentation.

Net debt

Period ended 30 June (£m)	H1 2015	H1 2016
Opening net debt	(5,196)	(4,747)
Adjusted net cash inflow	382	1,022
Other non-cash movements in net debt	(91)	(58)
Closing net debt	(4,905)	(3,783)
Margin cash	(465)	(359)
Closing net debt including impact of margin cash	(5,370)	(4,142)

The items, to which the cash posted or received as collateral under margin and collateral agreements relate, are not included within net debt. For further details see note 12 of the Interim Results announcement.